

Message Text

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E.O. 11652: N/A

TAGS: EFIN ETRD JA HK

SUBJ: FINANCING OF PROSPECTIVE JAPANESE PARTICIPATION IN
HONG KONG SUBWAY PROJECT

SUMMARY. JAPANESE PRESS REPORTS JAPAN'S EXIM BANK HAS
SOFTENED TERMS OF PROPOSED LOAN TO SUPPORT HONG KONG SUBWAY
PROJECT, IN RESPONSE TO HONG KONG REQUEST FOR SOFTER TERMS
AND RELUCTANCE TO AWARD CONTRACT TO JAPANESE FIRMS IF
FINANCING REMAINED ON HARDER TERMS. EXIM SOURCE PARTIALLY
CORROBORATES PRESS ACCOUNT. END SUMMARY.

1. NIHON KEIZAI SHIMBUN (JAPAN ECONOMIC JOURNAL) REPORTED
SEPT. 30 THAT HONG KONG SUBWAY PUBLIC CORPORATION (HKSPC)
PRESIDENT THOMPSON RECENTLY VISITED JAPAN FOR DISCUSSIONS
WITH FINANCE (MOF) AND INTERNATIONAL TRADE AND INDUSTRY
(MITI) MINISTRIES, AS WELL AS JAPAN'S EXIM BANK (EXIM),
AIMED AT GETTING EXIM TO SOFTEN TERMS IT HAD PREVIOUSLY
PROPOSED FOR LOAN TO FINANCE PORTION OF HONG KONG
SUBWAY CONSTRUCTION PROJECT. REPORTEDLY, JAPANESE FIRMS
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INTERESTED IN THE PROJECT HAD SUBMITTED PRELIMINARY BIDS

LOWER THAN THEIR COMPETITORS', BUT HKSPC WAS DISSATISFIED WITH PROPOSED TERMS OF EXIM LOAN AS HARDER THAN THOSE OF EXIM LOANS TO OTHER COUNTRIES, AND, REPORTEDLY, WAS THUS RELUCTANT TO AWARD CONTRACT TO JAPANESE. HENCE, HKSPC QTE STRONGLY HOPED UNQTE FOR MORE LENIENT TERMS FROM EXIM IN RANGE OF 3 YEARS' GRACE, 9 TO 12 YEARS FOR REPAYMENT, AND INTEREST OF 7 TO 7.5 PERCENT. (NEWSPAPER VAGUE WHETHER GRACE PERIOD TO PRECEDE OR INCLUDED IN REPAYMENT PERIOD.) IN PARTICULAR, ACCORDING TO NIHON KEIZAI, HKSPC PRESIDENT THOMPSON QTE STRONGLY REQUESTED UNQTE JAPANESE TO LENGTHEN PROPOSED LOAN'S REPAYMENT PERIOD. FINALLY, ACCORDING TO PRESS, THOMPSON HAS ALSO DISCUSSED LOAN TERMS WITH EUROPEAN COUNTRIES INCLUDING FRANCE AND ITALY, AS RESULT OF WHICH VARIOUS (UNNAMED) EUROPEAN COUNTRIES ARE REPORTEDLY MOVING TOWARDS SOFTENING THEIR PROPOSED LOAN TERMS. AS A RESULT, JAPAN'S EXIM HAS REPORTEDLY EXTENDED PROPOSED LOAN'S REPAYMENT PERIOD ALONG LINES REQUESTED BY HKSPC AND PROSPECTS ARE BRIGHT THAT BID FOR PROJECT WILL BE AWARDED TO JAPANESE FIRM(S).

2. EMBASSY HAS NOT BEEN ABLE YET TO CONFIRM OR REFUTE TO OUR OWN SATISFACTION ABOVE PRESS REPORT. FONOFF SOURCE TOLD EMBOFF CONFIDENTIALLY THAT JAPAN'S EXIM HAD ORIGINALLY OFFERED LOANS OF 95 BILLION YEN (\$313.5 MILLION AT 303 YEN/DOLLAR), WHICH WOULD BE 85 PERCENT OF JAPANESE SHARE OF PROJECT COST, ON TERMS (HE SAID) IN KEEPING WITH GENTLEMEN'S AGREEMENT: CIVIL WORKS PORTION TO BE AT MINIMUM 8.5 PERCENT INTEREST WITH MAXIMUM REPAYMENT PERIOD OF 8.5 YEARS, AND EQUIPMENT PORTION TO BE AT MINIMUM 8 PERCENT INTEREST AND MAXIMUM TEN YEARS' REPAYMENT PERIOD. THIS SOURCE, HOWEVER, SAID HE UNAWARE ANY RECENT DEVELOPMENTS CONCERNING THIS LOAN SUCH AS THOSE REPORTED IN HIHON KEIZAI. MOF AND MITI SOURCES SAID THEY COULD NOT COMMENT, BUT EXIM SOURCE SAID EXIM HAD RESPONDED ON SEPT. 29 ALONG LINES REPORTED IN PRESS (ABOVE) TO HONG KONG REQUEST FOR SOFTER TERMS. SOURCES IN JAPANESE FIRM BIDDING ON PROJECT (KUMAGAI-GUMI), ON OTHER HAND, TOLD EMBASSY HE UNDERSTOOD EXIM NOW PROPOSING LOAN AT 8.5 PERCENT WITH LIMITED OFFICIAL USE

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REPAYMENT OVER 10 YEARS INCLUDING 3 YEARS' GRACE.

3. COMMENT. REGARDLESS OF PARTICULAR FACTS OF THIS CASE, PRESS REPORTS AND SOURCES' COMMENTS RE BORROWER PRESSURES PROVIDE NICE ILLUSTRATION OF BOTH DESIRABILITY OF, AND REASONS WHY IT IS DIFFICULT TO CONCLUDE, COMPREHENSIVE GENTLEMEN'S AGREEMENT. END COMMENT.

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